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SUBJECT: KING ALBERT REJECTS PM LETERME'S RESIGNATION;

REFORM TALKS WILL CONTINUE

REF: A. A. BRUSSELS 1094
1B. B. BRUSSELS 1074 AND PREVIOUS

11. (SBU) SUMMARY: King Albert rejected Prime Minister Leterme's resignation and, after discussions with many political and labor leaders, called for "credible" dialogue on institutional reform for more devolution of power to the regions. Leterme's resignation turned into a clever political strategy play which has now overcome the rigid July 15 deadline imposed by the PM's coalition partners. Leterme is still very much involved in the process and the King appointed a committee of three respected statesmen to restructure and restart the institutional reform talks. Though the same problems remain, King Albert apparently agreed with Leterme that the regions should be involved in a revised format, and the ball is now in the Francophones' court. END SUMMARY.

2 (SBU) King Albert late on July 17 decided to refuse Prime Minister Yves Leterme's (CD&V) resignation and instead appointed three prominent mediators whose task it will be to "examine how guarantees can be offered for starting a credible institutional dialogue." The three are Christian Democratic (CDH) Minister of State and European parliamentarian Raymond Langendries, Liberal (MR) Minister of State and Representative Francois-Xavier de Donnea, and Socialist Minister-President of the German-language Community Karl-Heinz Lambertz. Their joint mission expires July 31.

13. (SBU) The announcement from the Royal Palace came after the King had completed his consultations with Leterme, Vice Premiers, majority and opposition party presidents, and with trade union and business leaders. CD&V party president Marianne Thyssen July 17 stated that after the Prime Minister's failure to clinch an institutional deal, it was now the turn of the Francophone political leaders to test the waters. However, Francophone party presidents Reynders (MR), Milquet (CDH) and Di Rupo (PS) are very apprehensive about resuming negotiations at this stage and prefer to give the task first to the elder politicians with an exploratory mission.

14. (SBU) Commenting on King Albert's decision, Thyssen said it met her party's demands for guarantees and a timetable. The New Flemish Alliance (N-VA), the CD&V's small government coalition ally whose insistence on a July 15 deadline pushed Leterme to offer his resignation, was more apprehensive, doubting that a breakthrough will materialize within such a short time. All the Francophone parties cautiously endorsed the King's decision.

15. (SBU) In a July 18 meeting with Olivier Henin, MR's leading economic advisor and director of Finance Minister Reynders' cabinet, Henin agreed institutional matters such as BHV (ref B) and voting districts are directly linked to

socio-economic issues and trust between the parties. As has been reported in the media, there is a general consensus on socio-economic policy measures reached just days before PM Leterme submitted his resignation. Henin said he feared if the current government changed and a new government was formed, the socio-economic achievements covering pensions and family benefits could be lost. He thinks these agreements of a newly re-worked budget, closing pension gaps between categories of workers, tax indexation, and family benefits for the employed, show a sense of consensus and cooperation between the Francophone and Flemish parties.

¶6. (SBU) Henin believes the biggest road block lies in the lack of trust and cooperation between the two Christian Democratic parties. He even went so far as to say the CDH (the Francophone Christian Democrats headed by Joelle Milquet) and its leaders are very much in need of "convincing," and that it is the job of the MR as a francophone leader to explain the importance of cooperation to the CDH leaders. It appears to Henin that all other francophone parties are ready and willing to negotiate not only socio-economic issues, but also major institutional reforms as suggested by Flemish parties (though not those of the extreme right). It will take a strong effort by the other francophone parties, as well as francophone regional players, such as Walloon Minister-President DeMotte, to convince the CDH and its constituents that change is needed and compromise is a necessity.

¶7. (SBU) The socio-economic gap between Flanders and Wallonia did not seem an impossible gap to resolve, theorized Henin, as he noted the initial gap between Spain and the rest of the EU when Spain first entered the union back in the

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1980s. As Spain was able to recover and close the economic gap, Henin believes that with reform and cooperation, Wallonia too can close the gap and contribute to a unified Belgium. The socio-economic policy agreement, which now simply needs parliamentary approval to become a reality, is only the first step in that direction; institutional consensus will only come when current economic problems are resolved. Henin asserts the best discussions will occur without artificial deadlines and with all issues on the table for the best chance of compromise, but negotiators must resolve the BHV question to move forward on institutional questions.

(SBU) COMMENT: By refusing his resignation and by more or less adopting Leterme's scenario, the King has demonstrated he still has faith in Prime Minister Leterme. The King's decision allows the current government to move forward on agreed upon socio-economic reforms to aid beleaguered Belgians facing higher inflation and unemployment. Through his most recent consultations with regional political leaders, King Albert acknowledges Belgium's regions and communities must play the key role in charting out a new institutional framework. The ball is now in the court of the Francophone parties and the elder statesmen. The same problems remain, but now some can relax a bit enjoy their National Day and summer vacations. END COMMENT.

FOX

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